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**NEW PRINCIPLES OF ENTERPRISE ACCOUNTING WITH THE STATE BUDGET**

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**I**

An analysis of the receipts side of the state budgets of the Soviet Union, People's Poland, and other countries of the socialist type clearly indicates that the main source for creating centralized funds for realizing state goals is financial accumulation by socialist enterprises. This fact is a manifestation of socialist production conditions based on public ownership of producer goods of which the most important part, the one of crucial importance to the whole national economy, constitutes nationwide state-owned property.

In these conditions an important problem in the finances of a socialist state is the organization of a system for transferring accumulation from state enterprises to the budget system in order to complete the distribution of that accumulation and utilizing it to satisfy public wants and needs in developing production, culture, and education, protecting socialist property, and strengthening the state's defensive might.

The receipts flowing to the budget system from state enterprises come chiefly from a part of the surplus difference between the monetary income of enterprises from the sale of their products and their expenditures on the manufacture and marketing of the products -- a part which the budget system takes over. But such expenditures, or the operating and production costs of enterprises, include such expense items as premiums for personal and material insurance, petty taxes and fees, which, in one way or another, also

become revenues to the budget system. But the importance of these revenue items is relatively slight.

Economic accounting -- a system of socialist planned management -- distinguishes state enterprises as independent units conducting, within the framework of national plans, their own financial activities, realizing monetary income in their own name and using that income to defray their own expenditures. Experience gained in socialist construction in the USSR and in the people's democracies has shown that economic accounting is the method permitting the most consistent realization of the principle of thrift, the creation of many economic incentives stimulating the enterprise to utilize its material and financial resources as efficiently as possible. The system of getting revenues for the budget from accumulation by enterprises must take into consideration this specific form of enterprise organization, must utilize it and at the same time further it so it may become a factor contributing to the improved efficiency of state enterprises.

On the other hand, the system of thus transferring the accumulation of enterprises to the budget must also take into consideration the postulates ensuing from its tasks as the cardinal tool for dividing monetary funds for organizing the planned evolution of socialist reproduction in the whole of the nation's economy and for ensuring the state's ability to execute its cultural-educational and defensive functions. These postulates can be expressed chiefly in the permanence, uniformity, and punctuality of the influx of monetary funds to the budget system, because the execution of state tasks may not be disturbed by the irregular influx of receipts.

The fiscal practice of the land of the Soviets has evolved classic forms to solve this problem; they were later adopted by the

people's democracies. The long experience of the Soviet Union indicates that a tax on turnover is the most appropriate way of taking over the basic part of financial accumulation achieved by socialist enterprises. The institution of taxation has been evolved in the fiscal systems of capitalist countries and subsequently adopted and utilized by the socialist fiscal system in order to realize the goal of construction and consolidating a new economic base for society. As preached by J. V. Stalin, "in our socialist conditions economic development proceeds not through sudden upsets but through gradual changes wherein all that is old is not totally liquidated but changes its nature in accordance with what is new, while the new does not destroy the old, but penetrates it, changes its nature, its functions, thus not shattering the form of the old but utilizing it to develop the new" (Stalin, J. V., Ekonomiczne problemy socjalizmu w ZSRR [Economic Problems of Socialism in the USSR], 1952, page 58, Warsaw). The capitalist class-oriented significance of taxation as another means to exploit the toiling masses perishes when in the conditions of socialist production what remains is taxation as a compulsory monetary contribution for the benefit of the state, established through legislation and payable at definite rates and dates. This form has been utilized for taking over a part of financial accumulation from enterprises because it best ensures the postulate which states that the budget system should be assured a permanent source of revenues. Although the source for paying this tax is accumulation by enterprises, the basis for such taxation is not accumulation but turnover, the sale of products. This makes it possible to procure revenues on short notice, sometimes even daily, without having to determine, through calculation, the accumulation monies, as this is possible not oftener than once a month. Just this principle ensures

the socialist budget with a steady influx of receipts which is moreover additionally ensured by the compulsory form of execution, characteristic of the taxation system, when there is an infringement of financial discipline.

The turnover tax cannot be used to take over all the planned accumulation from the enterprise. Economic accounting is connected to a system of incentives aimed at getting the enterprises to become materially interested in achieving accumulation; this necessitates that a part of accumulation be left to the enterprises so that they may provide their plan-set needs for expanding production. Another economic inducement for improved efficiency is the plant fund as a form of the material interest of the plant crew in the results of the activities of their enterprise. The part of accumulation remaining after turnover tax is paid constitutes the profit of the enterprise. Hence turnover tax is used to regulate the planned level of enterprise profits.

By the profitability of an enterprise we understand the ratio of profit to the production costs of the marketed output. At a definite amount of accumulation the level of profit, and hence the profitability, is therefore decided by the level of the turnover tax assessed.

The function of the turnover tax as the regulator of profitability is very important for furthering economic accounting. Enterprise profits should evolve in a definite ratio to enterprise production costs. Should turnover tax be assessed at an excessively high rate these profits lose their practical importance for covering the planned needs of the enterprise.

At a too low turnover tax rate and too high profitability the very level of prices may create opportunities for achieving profits

inappropriately higher than those achievable by reducing production costs; this weakens the struggle for such reduction.

The problem of regulating the profitability of enterprises exists not only in relation to their production as a whole but also in relation to the manufacture of individual products. From every one of its products the enterprise should realize an identical or approximately similar profit because any considerable differences in the profitability of individual products would encourage the infringement of the planned range and variety of products by devoting excessive attention to the manufacture of the more lucrative products and avoiding the manufacture of the less lucrative or loss-entailing products. The profitability of the manufacture of various products may sometimes be deliberately differentiated, but for a valid purpose, to create special incentives encouraging the manufacture of products exceptionally complex or important to the national economy as a whole.

Not all kinds of turnover tax fulfill their function as regulators of enterprise profitability with identical efficacy. The tax assessed in subjective rates, e.g., assessed at a single rate for the entire output of all enterprises within a given branch of production, does not balance the differences ensuing in the profitability of individual products and individual enterprises with differing production-costs levels owing to differences in their technological facilities and labor productivity.

Soviet practice indicates that the turnover tax assessed in the form of price differential is best suited to function as the regulator of enterprise profitability and at the same time to function to ensure steady revenues for the budget system. This form of

turnover tax has also been introduced in the Polish fiscal system, where it finds ever wider application. The level of turnover tax in this case is determined by the difference between the sales price of a production unit and its factory price. The factory price comprises the planned production costs and the planned unit profits. A turnover tax assessment thus conceived regulates the profitability of every product and hence of production in its entirety.

As mentioned before, identical products manufactured in several different enterprises within a single branch of production are produced at differing production costs. In this conjunction arises the problem whether the factory price -- the foundation for assessing turnover tax -- is to comprise the individual planned production costs of every product in every individual enterprise or the average production costs of the product as manufactured within the branch of production (that is, by a group of enterprises in a common organization and subordinated to a single central board of industry).

In practice both kinds of solutions are applied, but the tax assessments based on average factory prices clearly prevail. A merit of this latter solution is, on the one hand, a reduction in the number of tax rates (every product has a single, set rate and not as many rates as there are enterprises manufacturing that product); this considerably facilitates the planning and control of budget revenues, and, on the other hand, influences those enterprises which manufacture the given product at higher-than-average production costs and are thus induced to reduce these costs. In contrast, turnover tax rates based on individual factory prices sanction technological and organizational backwardness in some enterprises and

create no incentives for surmounting that backwardness or for achieving the average level and even surpassing it or for coming abreast of pace-setting plants.

By applying turnover tax in the form of the difference between the sales price and the average factory price of a product, it is possible to regulate production profitability on the scale of an entire branch of production, an entire central board of industry. But the individual enterprises belonging in this branch will display differences in profitability as a result of differences in the levels of their planned production costs. In addition to enterprises attaining higher-than-average profits will be enterprises that are little lucrative and some that even plan for production losses. This fact necessitates the activation of a mechanism for redistributing profits among enterprises within a single branch of production, those whose profitability as a whole is regulated by turnover tax.

The purpose of enterprise profits is, as noted above, the creation of decentralized funds for expanding enterprise production by supplementing enterprise-owned means of circulation (the use of profits to finance investments is still rather rare in the Polish system) and for the materially interesting enterprise crews in fulfilling plan-set tasks.

So that enterprise profits may fulfill the active role of a tool in the struggle to reduce production costs, the level of these profits must be made dependant on these costs. Regulation of enterprise profitability should hence consist in ensuring an amount of profit sufficing to complement liquid assets, to make a deduction for the benefit of the plant funds and to furnish the budget with

monies, the scale of the branch of industry as a whole (insofar as the level of accumulation permits) on the basis of the average costs of products. Identical turnover tax rates applied to all enterprises in a single branch of production effectively yield in every enterprise a profit directly affected by its production costs. Regulation of profitability from the viewpoint of the need of enterprises to complement their liquid assets would -- considering the major differences in this need in individual enterprises -- nullify the relationship between level of profits and production costs; this would considerably reduce the importance of profit as an incentive in the struggle to reduce these costs. Thus, tasks of this kind are not involved in the regulation of profitability; this in turn necessitates the activation of a mechanism for redistributing profits among enterprises, not so much, as noted before, to cover the eventual planned losses of certain enterprises as to supplement the liquid assets commensurately with the differentiated needs of individual enterprises.

In addition to the turnover tax the fiscal system also provides for another form for transferring a part of the financial accumulation of industrial enterprises to the budget; namely, profit payments. Both these forms are in simultaneous use, excluding the producer goods industry, which, considering that its price level is approximate to the level of its production costs, is in principle exempt from the turnover tax.

The reason for applying 2 forms for transferring accumulation to the budget is the fact that -- as stated before -- turnover tax is based on turnover, not on accumulation. Hence it ensures continuity in the influx of revenues to the budget but, also because of this, it cannot be used to control the fulfillment of the accumulation plan, because the influx of these revenues to the budget

continues unchanged regardless whether production costs, decisive to the level of accumulation (at steady sales prices), are or are not borne in accordance with the plan, that is, are above or below the planned level.

Profit payments are assessed in advance at rates specified in the plans; this counteracts any unnecessary stay of monies on enterprise accounting books. But once in every quarterly period, on the basis of the periodic closing of accounts, the level of the payable rates is determined according to the results actually achieved on the balance-sheet since the beginning of the year. Once every quarter there also occurs the transfer to the budget of a part of any plan-surpassing accumulation which may be mostly achieved by reducing production costs, and, likewise, once every quarter there arises the possibility of returning to the enterprises the monies they paid in advance, should their profits not have realized the planned level.

Turnover tax is not suitable for such elastic maneuvering, because it is not computed for enterprise accumulation, and, although it remains the principal form for taking over financial accumulation, it has to be supplemented with an additional, controlling, and revising tool -- the system of profit payments to the budget.

The problem of controlling the execution of the accumulation plan and auditing the budget in deviations from plans during their realization exists independently of the above mentioned problem of the necessity for the functioning of a mechanism for redistributing profits among enterprises in a single branch of production, a necessity caused on the one hand by the differing levels of planned production costs in different enterprises and on the other hand by

~~different~~ in demand for ~~accumulation~~ ~~their~~ ~~costs~~. Furthermore, both these problems may be solved independently. In the Polish financial system there existed facilities for separately regulating each of these problems. As example here we may take the system of plan-accounting prices by which profitability was balanced and accumulation was transferred among individual enterprises. In accordance with the postulates of that system industrial enterprises calculated their sales according to 2 different prices: the sales price, identical for all enterprises, and the plan-accounting price (comprising planned production costs, turnover tax, and profit), different for every enterprise. If the plan-accounting price was lower than the sales price, the surplus was transferred to a bank account administered by the central board of industry. In the opposite case the deficit of the enterprise was balanced from that very same account which should be closed with the surplus equal to additional payments, because the profitability of the given branch of industry as a whole was regulated by turnover tax. This price balancing system was hence used to perform transfers of profits, but it did not perform the other function -- the control of the execution of the accumulation plan and of the transfer of plan-surpassing accumulation surpluses and the balancing of deficits in the event of deviations from the right plan fulfillment -- because, "like the turnover tax rates, the plan-accounting prices were based on planned production costs and were not subject to revision depending on the fulfillment of the plan for costs."

But both these problems can be solved; the redistribution of profits among enterprises within any single branch of production and control over the execution of the accumulation plan and the revision of the budget, are both soluble by one and the same fiscal

tool. In certain conditions that tool may be the system of profit payments to the budget.

The fundamental requirement needed so that the profit payment system may perform both these functions is dual relationship between enterprises and the budget in this accounting. Payments by enterprises of a part of their profits may not directly affect the revenue figures in the budget, as happens, for instance, in the case of the turnover tax, but should be concentrated in a special bank account of the given central board of industry which thus gains an opportunity to (a) execute transfers of profits among its subordinate enterprises, in accordance with their individual financial plans; (b) transmit the amount due to the budget, in accordance with its comprehensive financial plan -- the basis for assessing the average turnover tax rates -- and which, consequently, should be the basis for channeling into the budget another part of financial accumulation, in nontax form.

## II

The new regulations governing the accounting between state enterprises and the budget with regard to the profits achieved and losses sustained, and surpluses and deficits of liquid assets, have introduced quite a number of essential changes into the hitherto effective accounting system.

Such changes have occurred particularly in the sector concerning the relations between the budget and central boards.

Pursuant to the regulations of 1952, central boards were obligated to transfer to the budget, in the name of their subordinate enterprises, the following profit payments: (a) planned profit

payments: (a) the amounts resulting from comprehensive financial plans (comprehensive balance sheets of receipts and expenditures; and (b) plan-surpassing profit payments in amounts resulting from comprehensive bookkeeping balance sheets. [Note] Resolution of the Council of Ministers No 205 of 29 March 1952 (Monitor Polski [Polish Monitor], No A-29, Item 422)

At the same time enterprises were charged with the duty of executing profit payments to the bank accounts of central boards in amounts resulting from their (the enterprises') unit balance sheets of receipts and expenditures (planned payments) and from their unit bookkeeping balance sheets (plan-surpassing payments).

As a whole the effect of these regulations was that the accounting in central boards, although formally speaking based on comprehensive balance sheets, was in the final analysis performed on the basis of the balance of the profit payments receivable from profitable enterprises and subsidies due to cover the losses of deficit enterprises.

As a result, the original relationship between a central board and the budget, as materialized on the basis of a comprehensive balance of incomes and expenditures substructured on the limits stipulated in the MFG [Barodowy Plan Gospodarczy -- National Economic Plan], often had to be revised on the basis of the subsequently prepared unit balance sheets of enterprise receipts and expenditures. The necessity for this revision could, in this conjunction, occur even when the planned comprehensive profits remained unaltered.

This is illustrated by the following instance:

The comprehensive balance sheet of receipts and expenditures of a central board (based on the NPG's limits) envisaged a profit of 520 million zlotys subject to this division: 340 millions for financing the increase in the liquid assets of subordinate enterprises; and 180 million zlotys to be paid into the budget as profit payment (for simplicity's sake the problem of the plant fund has been omitted), which amount has been entered in the executive composition of the budget.

These were the results of the balance sheets of receipts and expenditures of individual enterprises:

Enterprise	Profit - Loss	To defray increase in liquid assets	To pay into the central board account	Subsidies from central board account to defray losses	Subsidies to defray increase in liquid assets
(A)	/ 200	100	100	--	--
(B)	/ 300	90	210	--	--
(C)	/ 150	100	50	--	--
(D)	- 50	--	--	50	10
(E)	- 80	--	--	80	20
Total	/ 520	290	360	130	30

As can be seen from the above, the combined total of the profits of the enterprises A through E, resulting from their balance sheets of receipts and expenditures, has not changed any in comparison to the profits resulting from the comprehensive balance sheets of receipts and expenditures. However on the one hand, the central-board account with regard to profit payments registers higher amounts (230 and 360 million profit payments plus 130 million in subsidies) than the amount by which the central board is bound to the budget (180

million zlotys), while on the other hand there arose the necessity of using a 30 million subsidy to finance the increase in the liquid assets of the planned-deficit enterprises. Inasmuch as the 1952 regulations did not make possible the use of profit payments to finance the planned increase in liquid assets, in concrete cases it became necessary to supply from the budget the demand for liquid assets in enterprises D and E. But when the original relationship between a central board and the budget did not provide for such subsidies, it became necessary to revise the sums originally entered into the budget's executive composition.

In the example cited, if the preparation of unit balance sheets of receipts for enterprises A, B, and D were to reveal the necessity for leaving higher amounts of monies to these enterprises for financing the increase in their liquid assets, even if the profit remains the same, only 10% of the planned profit, that is, altogether 65 million zlotys, could be planned to be transferred to the budget, then, although, comprehensively speaking, the combined planned profit of the 5 enterprises would be still 520 million zlotys, the budget would not benefit from any profit payments; conversely, it would be necessary to spend a subsidy on covering the losses of deficit enterprises, in the amount of 65 million zlotys (130 - 65), and on financing the increase in their liquid assets, in the amount of 30 millions.

Of course in such a situation the need to revise the original ties between a central board and the budget would have to become even more urgent.

From the above it can easily be concluded that the comprehensive balance sheet of receipts and expenditures of the central board

decided on the amount by which it would be bound to the budget, while the manner of this relationship was dictated by the plans of enterprises.

Moreover there arose difficulties on the control of the execution by central boards of their budgetary tasks. This was because the comprehensive balance sheets of central boards furnished no idea of the correctness of their accounting with the budget, so that if the theretofore used system were to be continued it would be necessary to control accounting in enterprises.

In these conditions it became necessary to revise the hitherto used accounting system and to base the planned ties with the budget on the comprehensive balance sheets of receipts and expenditures of central boards or, strictly speaking, on the comprehensive results of central boards specified in these balance sheets.

This has been expressed in the new regulations which have introduced a definite system of accounting between central boards and the budget for the comprehensive result (and hence not for the sum total of payments receivable from enterprises, as in the preceding year), parallel to the system of accounting between enterprises and the central board.

At the same time, to facilitate the financing of enterprises, the new regulations introduced a joint "central-board account of profit payments and loss subsidies due to liquid assets," thus regulating with a single law the accounting system pertaining to both matters. If it be considered that the problems of profit and loss and of liquid assets very frequently closely intermesh, since a part of the profits of an enterprise is assigned for increasing its own liquid assets, the abrogation of the previously existing [see

Note separate account for these matters. Integration in a single set of regulations should evoke no misgivings. The fears that the abolition of the above mentioned separateness may obscure the accounting picture and may cause the central boards to cease conducting the appropriate bookkeeping, taking into account payments in the the central board account and out of that account separately with regard to profit and loss payments and liquid-asset payments, and moreover separately for every year [incomplete sentence].

Note Cf. Resolution of the Council of Ministers: No 205, 29 March 1952 (Monitor Polski, No A-29, Item 422), and No 387, of 14 May 1952 (Monitor Polski, No A-43, Item 613).)

The same set of regulations, and on principles analogous to those applying to enterprises in the central budget, also applies to the accounting of enterprises related to local budgets. This is a result of the change in 1953 in their relations to local budgets; pursuant to the new regulations [see Note] several groups of such local enterprises will in the present year be integrated to the corresponding local budgets by local boards which perform analogous functions with regard to the budgets, and the central boards. Hence it is no longer necessary to determine a separate accounting system for the local enterprises.

Note See the Ordinance of the Minister of Finance, 29 August 1952 (Monitor Polski, No A-79, Item 1276), and Ordinance of the Minister of Finance, 13 December 1952 (Monitor Polski, No A-106, Item 1647).)

Hence every central board and every local board is obligated to open in the territorial branch of the proper bank (i.e., the

crediting bank) a single joint account into which will be deposited profit payments, payments of surplus liquid assets from subordinate enterprises, and monies transferred from the budget as subsidies to defray losses -- this last only if a given central (or local) board operated with a deficit, on the whole (on the yearly and quarterly basis) -- and monies to cover the deficit in liquid assets at the beginning of the year and to finance the increase in liquid assets throughout the year. From this account the central (or local) board will execute transfers to their subordinate enterprises to cover their liquid-asset deficits and to finance the increase in their liquid assets; it will also execute therefrom transfers of profit payments and surplus liquid assets to the central budget (or local budget).

In this conjunction, the principle was introduced that transfers of the afore-mentioned subsidies from the budget to the central board (or local board) account may be executed only up to 15 December in any one year, while transfers of these subsidies from the said account to the subordinate enterprises may be executed not later than by 24 December of any one year.

Any losses not covered during a year and any nonfinanced increase in liquid funds during the year will be regarded as a liquid-asset deficit as of 1 January of the following year.

### III

The principles for enterprise accounting with the central board have been subject to relatively slight changes (although for local enterprises under local boards this system is, naturally, new).

In particular, with regard to planned accounting, there was introduced the duty of making planned profit payments and payments

of surplus liquid assets once every month -- by the twentieth day of every month -- in amounts equal to  $1/3$  of the amounts provided for the given quarterly period in the enterprise's (or plant's) balance sheet of receipts and expenditures.

Hence the new regulations have changed the deadlines for planned profit payments by enterprises included in the central budget, as these enterprises were previously obligated to make these payments twice every month (by the tenth and twenty-fourth day of every month) in amounts equal to  $1/6$  of the quarterly payment and with regard to local enterprises which previously had to make their profit payments by the twenty-fifth of every month.

The deadline for depositing surplus liquid assets in the central board account throughout the year has remained unchanged. The deadline (20 January) by which the enterprises must deposit in the central board account their surpluses of liquid funds as of 1 January has also not been changed.

Like the payments into the central board account, the planned transfers of subsidies from that account to cover losses and to finance the increase on the liquid funds of enterprises will be executed once every month (until the fifth day of every month and with regard to subsidies for coverage of losses, until the fifth and twentieth).

In this connection the deadline for using the central board account monies to cover the deficits of liquid assets as of 1 January was fixed at not after 25 January (previously only until 10 January), or within 5 days from the date on which the central board receives a subsidy from the budget for that purpose, should the board's own funds not suffice for this.

But at the same time the principle has been introduced that the granting of a subsidy from the central board account to cover the planned deficit in liquid assets as of 1 January to the degree to which that deficit has been caused by the deterioration of the planned financial results in the preceding year may occur only with the approval of the appropriate minister and the Minister of Finance, insofar as the enterprises included in the central budget are concerned, with the approval of the appropriate department of the presidium of the people's council in cooperation with its financial department, regarding the local budgets.

An enterprise applying for such a subsidy should submit an appropriate request containing an analysis explaining why the results of its activities were worse than planned and indicating the ways and means of obviating such worsening in the future.

The new regulations settle in detail the procedure and principles for such accounting, as based on the results actually achieved by the planned payments of the enterprise and the planned subsidies received by them, when the accounting based on periodic balance sheets (periodic accounting) separately from the accounting based on yearly balance sheets (yearly accounting) is integrated.

Periodic accounting is to be performed on the basis of balance sheets prepared for the days of 31 March, 30 June, and 30 September -- on the basis of the results (gains or losses) for the period from the beginning of the year, within 35 days from the end of each quarter. Should an enterprise achieve plan-surpassing profits, it is obligated to transfer to the central board account 75% of these plan-surpassing profits, after it has first deducted from them additional payments into the plant fund and payments for other purposes provided for in separate regulations.

For example, if the plan-surpassing profits amount to 100, from which the additional deduction for the plant fund will be 20 (20%), the enterprise will be obligated to transfer 60 (75 percent of  $80/100 - 20 \text{ Pf}$ ), and retain 20 for itself.

The hitherto effective restriction on the duty of transferring to the budget at least 10% of plan-surpassing profits is no longer in force, provided that the overall payment from balance sheet profits will amount to no less than 10% of profits.

Should the balance-sheet profits achieved be below the plan set profits, the payment due the budget amounts to -- analogously as in the previous regulations -- such a percentage of actual profits as results from the ratio of the planned-profit payment to the planned profit (according to the balance sheets of receipts and expenditures).

Although the profits achieved are below the plan-set profits, should an enterprise be entitled to make a deduction for the plant fund (for independent reasons), the profit payment is subject to a corresponding reduction, upon retaining the requirement that it may not amount to less than 10% of actual profits.

Detailed regulations also govern the procedure for accounting when an enterprise attains a profit instead of a loss as planned and also when the actual loss is below the planned loss (this involves the complete or partial refund of subsidy to the budget after taking into account the deductions due the plant fund, while the profits are accounted on principles provided for plan-surpassing profits), and when, instead of the planned profits, the balance sheet of an enterprise indicates losses, or when the balance sheet loss is higher than the planned loss.

With regard to the 2 latter kinds of cases, the current regulations have introduced quite a number of vital changes on how the resulting plan-exceeding (unplanned) losses are to be covered.

In particular, upon maintaining in periodic accounting the principle that the plan-exceeding losses of some enterprise may be covered by the central (or local) board from the plan-surpassing profit payments of other enterprises or from the reduced (in relation to the plan) subsidies for those planned-deficit enterprises which have achieved losses below the planned losses, the current regulations make such coverage dependent on -- insofar as the central budget enterprises are concerned -- the approval of the appropriate minister in cooperation with the Minister of Finance, provided that the latter may specify when such cooperation may be dispensed with; regarding the enterprises included in local budgets, the coverage of their plan-exceeding losses from the above mentioned sources may be performed by the local boards if they obtain prior approval from the head of the appropriate department of the presidium of the people's council to whose budget the local enterprise accounts for its results. Such approval is to be granted in cooperation with the head of the financial department.

Analogously as when applying for a subsidy to cover that part of the deficit in liquid assets caused by the worsening of its results as of 1 January, an enterprise asking to have its plan exceeding losses covered through the above described procedure should submit the appropriate request containing an analysis of the causes for the deterioration of results and indicating ways and means of obviating such deterioration in the future.

In view of the thorough control of the reasons for the occurrence of plan-exceeding losses, and considering the role of the

Minister of Finance in covering such losses, the present regulations do not follow the principle that the coverage of plan-exceeding losses may not reduce payments into the budget; in practice this is expressed in that the plan-surpassing payments of individual enterprises (the subsidies they saved) can be expended by the central (or local) board -- upon observing the above requirements -- to defray the plan-exceeding losses, regardless whether or not other enterprises attain profits below those planned.

[Note] See Finance, No 2, 1952, page 60)

Unlike the old regulations the new regulations do not provide for accounting on the basis of periodic balance sheets of surpluses and deficits of liquid assets; nor do they provide for, in this conjunction, the year-round financing of the increase in liquid assets with plan-surpassing funds should an enterprise, owing to the deterioration of its results (profits lower than planned) not have accumulated the means necessary for that purpose; in principle the deficiencies in this respect may be compensated for by the enterprise throughout the year by improving the results in subsequent periods.

[Note] Unlike the old regulations the new regulations do not provide either for the possibility of accounting on the basis of periodic balance sheets of the payments of surplus liquid assets by an enterprise or of the payments of the subsidies received by the enterprise to increase its liquid assets.

In this connection neither is provision being made for the possibility of using, during a year, the plan-surpassing profit payments of some enterprises to cover the deficits in liquid assets arising in the enterprises achieving profits below those

planned; such deficits may be balanced by an enterprise through any year only by improving its results in subsequent periods.

But if this does not occur, the nonfinanced increase in liquid assets will be treated as a deficit in liquid assets owing to the deterioration of results as of 1 January and subject to coverage through a special procedure already described above (see planned accounting).

Should an enterprise not prepare a balance sheet before the deadline fixed for periodic accounting, it is obligated to pay in advance 10% of its planned payment as an additional planned profit payment; this payment will be accounted for after the pertinent periodic balance sheet is finally submitted.

Yearly accounting of enterprises with the central board will be conducted, as before, in 2 stages: in the first -- on the basis of the still unconfirmed yearly balance sheet for the preceding period, to be completed by 30 April of the current year, and if no balance sheet is available, on the basis of provisional calculations; in the second -- on the basis of a confirmed yearly balance sheet, within 2 weeks from the date of the confirmation.

Accounting on the basis of a yearly balance sheet is obligatory for profit payments during the preceding year and for surpluses and deficits of liquid assets as of 1 January of the current year (the year in which the balance sheet for the preceding year is drafted).

Accounting of profit payments occurs on the same principles as their accounting on the basis of periodic balance sheets, save that for the enterprises whose balance sheet indicates profits

higher than planned the due profit payments are fixed at amounts comprising planned payments plus payment of plan-surpassing profit, although this is to be decreased by additional deductions for the plant fund and other additional deductions provided for in the regulations in force; thus accounting is extended to the plan-surpassing profits retained by an enterprise throughout a year (at periodic accounting only 75% of that profit is paid in after having been decreased by the appropriate deductions).

But accounting of losses is different. If the yearly balance sheet of an enterprise indicates a loss above or below the sum total of subsidies received in the preceding year from the central-board bank account, or if it indicates profit instead of the planned loss, the additional losses are not covered and neither, in case of profit, are the subsidies returned; what happens is that the difference between the actual loss and the sum total of the received subsidies is taken into consideration when determining the surpluses or deficits of liquid assets at the beginning of the new year. The enterprise which achieves profit instead of loss considers this as plan-surpassing profit in its accounting.

A similar proceeding is applied when a plannedly profitable enterprise indicates loss in its yearly balance sheet; in this case the enterprise is entitled to a refund of the already realized profit payments.

Enterprise accounting of surpluses or deficits of liquid assets as of 1 January is conducted in 2 stages: (1) preliminary, until 20 January, as far as surpluses are concerned, and until 25 January with regard to deficits, in which conjunction the height of the surpluses or deficits is determined prior to 1 January on the

basis of the actual results of the 3 first quarters of the years, or the first 10 or 11 months of the year (depending on the reporting conducted), and the estimate of differences in this regard during the final period of the year; and (2) on the basis of the yearly balance sheet.

This accounting is performed on the basis of the determination of the level of the liquid assets owned by the enterprise and received by it for balancing purposes (constant assets) compared with their state as of 1 January, upon taking into consideration the obligatory percentage of their coverage (e.g., in trading enterprises), the norm for enterprise-owned and enterprise-received assets and credit. In determining the level of enterprise-owned liquid assets as of 1 January, consideration is given to changes caused by the division of profits (among others, additional profit payments, additional deductions for the plant fund, etc).

The level of the surplus or deficit of liquid assets will be influenced, among others, by such factors as an enterprise's failure to receive before 24 December of the preceding year a subsidy for financing the increase in its liquid assets; incompletely accumulated funds for financing the planned increase in liquid assets; and losses not covered during the year.

The granting of a subsidy for this purpose to an enterprise during the first stage (by 26 January) may occur from the funds owned by the central (or local) board -- from the surpluses of the other enterprises subordinated to that board, when such surpluses are at the disposal of the board on 1 January (if the deficit is caused by the deterioration of enterprise results, the special afore-described procedure for planned accounting is retained);

should the board lack funds, this granting occurs from the subsidy received by the board from the budget.

At the second stage -- on the basis of the yearly balance sheet -- occurs the accounting of differences between the actual surpluses or deficits of liquid assets as indicated by the balance sheet and the sum total of surplus profit payments deposited in the central-board account or of subsidy payments to cover deficits, likewise previously deposited in that account.

If the yearly accounting shows that the amount of the originally deposited surplus profit payments is higher than the amount indicated by the yearly balance sheet, the enterprise is entitled to a refund of the excess payments it made; in the opposite case the enterprise is obligated to deposit the missing difference in the central board account.

Likewise, if yearly accounting shows that the deficit as of 1 January is lower than the subsidy originally received by the enterprise to cover it, the enterprise is obligated to deposit the differential in the central board account. On the other hand, if yearly accounting shows that such a deficit is higher than the subsidy originally received to cover it, the central (or local) board may grant an additional subsidy to the enterprise from its bank account to cover the difference; the procedure followed in such cases is analogous to that followed in covering plan-exceeding losses sustained during the year (upon an especially motivated request by the enterprise and with the approval of the proper minister in co-operation with the Minister of Finance -- as far as the central-budget enterprises are concerned, and with the approval of the head of the proper department of the presidium of the people's council

in cooperation with the head of the financial department, as far as local-budget enterprises are concerned).

Should a central (or local) board's bank account lack sufficient monies to cover the increased deficit in liquid assets, it may apply for a budget subsidy for this purpose.

To complete the description of the system of accounting between enterprises and their central (or local) boards it should also be mentioned that the new regulations settle explicitly the matter of the accounting of profit payments and coverage of losses in enterprises which plan for losses in some quarterly periods and for profits in other periods -- a matter that formerly caused many difficulties and evoked numerous discussions, owing to the absence of explicit regulations.

In particular, this matter has been settled so that:

(1) Accounting after the passage of the profit-showing quarterly periods is conducted according to general principles, on the basis of results since the beginning of the year, save that:

(a) in calculating the level of profit payments the balance-sheet profit is increased by the loss-covering subsidy received from the central board bank account;

(b) the planned percentage of profit payments, when the profit determined in the manner indicated in (a) turns out to be lower than the profit planned for the given period, is calculated upon taking into consideration the ratio of planned profit payments to planned profit, exclusively in the planned profit-showing quarterly periods;

(2) Accounting after the passage of the planned deficit quarterly period is conducted according to general principles but on the basis of the results of that period.

### Example

The plan of an enterprise envisaged the following results during each quarterly period (in millions of zlotys):

Quarter	Profit - Loss	Division of Profit		Subsidies to cover losses [see Note]	Remarks
		Financing the increase in liquid assets	Profit payments		
I	100	30	70	---	
II	40	--	--	40	
III	60	10	50	--	
IV	70	--	--	70	
	50	40	120	110	

[Note] For simplicity's sake the deductions for the plant fund are omitted from the central board account.

The actual profits were found to amount to:

110 at the end of Quarter I

80 at the end of Quarter II

110 at the end of Quarter III

60 at the end of Quarter IV (yearly)

### Accounting

(1) At the end of Quarter I the enterprise achieved a plan-exceeding surplus profit of 10 million zlotys, of which it was obligated to transfer 7.5 zlotys to the central-board account; the combined total of profit payments due for deposit in the central-board account amounts to 77.5 zlotys (70 zlotys planned payments / 7.5).

Quarter, II, is a plannedly deficient one; hence accounting should be done on the basis of the results of that quarter; and considering that the balance-sheet profit at the end of Quarter II amounted to 80 zlotys as compared with 110 zlotys at the end of Quarter I, it can be concluded that in Quarter II the enterprise has sustained losses totaling 30 zlotys; its planned losses were to be 40 zlotys, and it has received a subsidy of 40 zlotys to cover them; therefore, the difference, 10 zlotys, should be refunded to the central-board bank account.

(3) At the end of Quarter III the balance sheet profit amounted to 110 zlotys. On adding to it the 30 zlotys received as subsidy to cover losses, pursuant to regulations in force, the combined total will be 140 zlotys which is lower than the combined total of planned profits during the profit-showing quarters according to the enterprise's balance sheets of receipts and expenditures (profit during Quarter I -- 100 zlotys, during Quarter III -- 60 zlotys. Total: 160). Hence to calculate the profit payments due it is necessary to determine the ratio of planned profit payments to planned profit for the profit-showing quarterly periods. Considering that the ratio of the 160 sum to the 120 sum of profit payments means that profit payments are to total 75%, at the end of Quarter III the enterprise should make a profit payment of 105 (75% of 140), and since in the previous quarterly periods it has paid 77.5 zlotys plus 50 zlotys -- a total of 122.5 zlotys, it is due to a refund of the overpaid 17.5 zlotys.

(4) At the end of Quarter IV the balance sheet shows a profit of 60 and, considering that at the end of Quarter III the profit achieved was 110, it can be concluded that in Quarter IV

the enterprise has sustained losses totaling 50, whereas it planned for losses totaling 70 during Quarter IV, and has received subsidies totaling 70. The excess subsidy (20) received for Quarter IV will be accounted for within the framework of the surpluses and deficits of liquid assets as of 1 January.

#### IV

The system of accounting between the central (or local) boards and the budget is generally based on the same principles as the system of accounting between these boards and the enterprises.

Central (or local) boards conduct planned accounting with the budget and, subsequently, periodic and yearly accounting.

Planned accounting is executed once every month. However while enterprises conduct their accounting with the central (or local) board on the basis of their balance sheets of receipts and expenditures, the central (or local) boards conduct their planned accounting on the basis of the quarterly plans of budget execution.

These latter plans were not considered in the old regulations and have been adopted as the basis for accounting in conjunction with the new regulations according to which the central budget and local budgets are to be executed on the basis of the quarterly plans of budget execution, voted upon by the Council of Ministers insofar as the central budget is concerned, and by the presidiums of people's councils insofar as local budgets are concerned.

An expression of this thesis is that the new regulations include the provision, with respect to the budget, that a central

board shall determine, within the framework of the amounts specified in the quarterly plans of budget execution, the amounts of payments due for deposit by subordinate enterprises in its bank account at levels different from those indicated in the enterprise balance sheets of receipts and expenditures if this is so necessary in conjunction with the levels of payments into the budget or subsidies from the budget specified in the quarterly plans of budget execution.

Within the framework of the quarterly plans of budget execution it will be possible to avert difficulties in financing the plannedly deficit enterprises between the deadlines for subsidizing enterprises -- until the eighth of every month -- and the deadlines

for making profit payments and surplus payments into the central board as an account -- the twentieth of every month. In these conditions it is no longer necessary to maintain the regulation, from the preceding year, which says that a central board may use a part of its received profit payments to grant subsidies in the subsequent month.

On the basis of the plan of budget execution for the first quarter a central (or local) board is obligated to transfer to the budget by 26 January any surplus liquid assets existing at the beginning of the year and, subsequently, once every month by the twenty-sixth day of the month, to transfer 1/3 of its received profit payments and surplus-liquid-assets payments envisaged for a given quarter in the quarterly plans of budget execution.

The central (or local) boards whose plans for budget execution for the first quarter envisage a deficit of liquid assets as of 1 January will receive by 20 January a subsidy from the budget to cover that deficit. Analogously as with enterprises, the granting of subsidies to cover that part of the deficit caused by the deterioration of results occurs through a special procedure, namely, upon the central board's submission of an especially justified request containing an analysis of the causes for the deterioration of results and indicating ways and means to prevent the rise of such a deficit in the future; thereafter the subsidy may be granted if it has the prior approval of the government presidium with regard to the central board, and that of the presidiums of the local people's councils with regard to the local boards. Should the approval be so delayed that the subsidy cannot be received before the deadline of 20 January, then such a subsidy should be granted within 15 days from the date of the decision of the government presidium or the presidium of the people's council.

To cover the planned increase in liquid assets and to cover the planned losses, central boards receive by the third of every month a budget subsidy amounting to  $1/3$  of the subsidies planned for the given quarter in the quarterly plans of budget execution.

Periodic and yearly accounting with the budget is executed by the central (and local) boards on principles nearly identical to those applied in the accounting between enterprises and these boards, with the following exceptions.

(1) When a surplus, plan-surpassing profit is achieved, the central (or local) board is obligated, at periodic accounting, to pay into the budget not 75 but 50% of that surplus profit after it has first been decreased by additional deductions for the plant fund and for other purposes envisaged in separate regulations.

(2) Should a board's subordinate enterprises not obtain -- at periodic accounting -- the approval of the appropriate minister and the Minister of Finance to cover their plan-exceeding losses from the surplus plan-surpassing profits or saved subsidies of other enterprises (due to the achievement of better results by those other enterprises), the net profit from the comprehensive balance sheet is considered to be the balance-sheet profit increased by the plan-exceeding (unplanned) losses. This provision is not applied to yearly accounting, except when a central (or local) board disposing of appropriate surpluses in its bank account, and hence not in need of budget subsidies to cover the deficit in liquid assets as of 1 January resulting from its yearly balance sheet, does not obtain for this the approval of the proper minister (in cooperation with the Minister of Finance) or of the proper department of the presidium of the people's council (in cooperation with

its financial department); in such a case the comprehensive profit of the central (or local) board is increased by the plan-exceeding losses for the covering of which no approval has been obtained.

Moreover, analogous to the above is the procedure in the accounting of the central (or local) board with respect to surpluses and deficits of liquid assets, plan-exceeding losses in the course of the year not covered from the budget, ungranted budget subsidies for covering planned losses, nonfinanced liquid assets, subsidies not returned to the budget by the central (or local) board, profit payments not realized in the course of the year, etc.

Such procedure varies only for covering the deficit of liquid assets as of 1 January -- when it is higher than the budget subsidy originally granted to the central (or local) board. As concerns the central boards in such cases the granting of an additional budget subsidy may follow on the basis of a decision of the government presidium, pronounced on the proposal of the appropriate minister, but as concerns the local boards, on the basis of a decision of the presidium of people's council, pronounced on the proposal of the appropriate department and with the opinion of the financial department -- concerning the confirmation of the coverage of that part of the deficit in liquid assets as of 1 January indicated by the confirmed balance sheet for the preceding year which has been caused by the deterioration of results.

To obtain such confirmation the central (or local) board should submit a properly justified request; if such a request is not submitted within 2 weeks from the date the comprehensive balance

sheet is confirmed, and not later than 1 July, the subsidy already received is subject to being returned.

As in planned accounting, periodic accounting and even yearly accounting may reveal differences between the sum total of payments deposited in the central board account by enterprises and the sum total of payments which a central (or local) board will be obligated to transfer to the budget or to subordinate enterprises as subsidies or refunds due these enterprises.

This is illustrated by the following example.

Let us assume the following.

(1) the comprehensive plan of a central board envisages a profit totaling 800 (million slotys) which is to be subject to this division: 120 for financing liquid assets and 680 for payment into the budget;

(2) the sum total of the unit balance sheets of receipts and expenditures of subordinate enterprises proves to concur with the comprehensive balance sheet of receipts and expenditures, in which conjunction the unit balance sheets and receipts showed:

Enterprises	Profit - Loss	Division of profit for the year		Subsidies to cover losses in the ac- counting year
		Increase in liquid assets	Payment into the budget	
A	200	50	150	--
B	300	30	270	--
C	400	40	360	--
D	-- 100	--	--	--
Comprehensive Total	800	120	780	100
				Net 680

(3) the actual results, according to periodic balance sheets, were as follows:

(a) Enterprise A achieved:

A profit of 300 -- and hence made a payment into the  
the budget, for the given quarter. . . . . 225  
of which 150 was planned payment plus 75% of the  
plan-exceeding surplus profit, 100, and thus could  
fully cover its need for liquid assets. . . . . 50

(b) Enterprise B achieved:

A profit of 200, and hence made a quarterly payment of. . . 180  
(profit lower than planned; payment according to planned  
percentage)

$$\frac{270 \times 100}{300} = 90\%$$

thus the amount remaining for liquid assets was. . . . . 20

(c) Enterprise C achieved:

A profit of 400, in accordance with its plan, and  
hence its profit payments totaled. . . . . 360  
and it accumulated the necessary amount for liquid  
assets. . . . . 40

Altogether the above 3 profitable enterprises  
achieved a profit of 900 and paid in a total of. . . . . 765

(d) Enterprise D showed a loss in its balance  
sheet, in accordance with its plan, i.e., a loss of 100,  
subject to being covered from the central-board account.

Ultimately therefore the combined profit of all 4 enter-  
prises amounted to 800 (900 - 100) and the payments made by enter-  
prises totaled 665 (765 - 100).

But considering that the sum total of profits according to the comprehensive balance sheet coincides with the profits resulting from the comprehensive balance sheet of receipts and expenditures, the central board is under the obligation to realize profit payments also in the amount coinciding with the plan, i.e., in the amount of 680 million zlotys.

There may, of course, occur cases to the contrary when the sum total of payments by enterprises will be higher than the amount which the central board is obligated to transfer to the budget. In such event the surpluses will accumulate in the central board bank account, and if they are not considered in the current quarterly plan of budget execution they will be considered in the quarterly plan of budget execution for the subsequent quarter. On the other hand, difficulties will arise should a central (or local) board not own appropriate monies in its bank account and hence be unable to fulfill its obligations toward the budget or to execute the refunding of any excess monies paid in by enterprises. Such difficulties may be obviated to some degree by the fact that:

(1) during a year deficits of monies in some quarters may be balanced by surpluses in other quarters;

(2) the central (and local) board is authorized to establish a reserve fund in the form of 25% of the plan-exceeding surplus profits of enterprises, inasmuch as enterprises are obligated to transfer to the central board account 75% of their plan-exceeding profits whereas the central board, in the course of a year, transfers to the budget only 50% of the plan-exceeding profits resulting from its comprehensive balance sheet.

(3) The excess payments deposited by enterprises in the central board bank account and not refunded to the enterprises by the end of the year will be accounted for by the central (or local) board within the framework of surpluses and deficits of liquid funds at the beginning of the new year; any eventual surpluses in the central board account will be similarly accounted for.

But this situation will require from the financial organs that they proceed very elastically and deliberately so as to liquidate rapidly any eventual planning difficulties of the central (and local) boards that are attributable to the accounting system itself.

Both the enterprises comprised in the central budget and those comprised in local budgets are subject to the regulations governing the accounting of central (and local) boards, with the following exceptions:

(1) The deadline for periodic accounting is within 35 days after the passage of every quarterly period for enterprises and within 50 days for central (and local) boards.

(2) The deadline for yearly accounting is by 30 April for enterprises, and by 31 May for central (and local) boards.

(3) The enterprises are obligated to transfer 75% of their surplus plan-exceeding profits whereas the central (and local) boards are obligated to transfer only 50% of such profits.